

REPLIES OF THE EUROPEAN COMMISSION

TO THE EUROPEAN COURT OF AUDITORS' SPECIAL REPORT

on **NGEU Green Bonds**

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This document presents the replies of the European Commission to observations of a Special Report of the European Court of Auditors, in line with Article 265 of the Financial Regulation and to be published together with the Special Report.

I. THE COMMISSION REPLIES IN BRIEF

Under the NextGenerationEU (NGEU) Green Bond programme, the Commission is giving investors the opportunity to support the financing of climate and environmental activities funded under the Recovery and Resilience Facility (RRF, the main programme under NGEU) across EU Member States. The programme leverages the opportunity created by the NGEU economic recovery package to help develop the green bond market.

The Commission's primary objective in implementing NGEU Green Bond issuances has been to lead by example and to follow and develop further best market practices whenever possible. Specifically, issuances need to be implemented within the constraints of the applicable RRF-related regulations, the institutional set-up of the European Union as an issuer and the timing limitations associated with the RRF's launch as an urgent response to the COVID-19 crisis.

As of end September 2026, the Commission had issued EUR 85.96 bn of NGEU Green Bonds. All issuances are done under the NGEU Green Bond framework, which is aligned with the green bond principles of the International Capital Market Association (ICMA) on the use, management and reporting of proceeds. Issuances are prudently calibrated to the level of green expenditure reported by EU Member States under national controls and are subject to supplementary risk assessment at EU level. Those elements are combined to prevent NGEU Green Bond issuances from exceeding the eligible green expenditure to be reported by EU Member States by the end of the programme and to mitigate the risks of greenwashing. The NGEU Green Bond programme entails regular and comprehensive public reporting, such as annual Allocation and Impact Reports and an online NGEU Green Bond Dashboard, which show the climate impact of the proceeds raised. With the launch of the NGEU Green Bond Dashboard in 2022, shortly after the inaugural issuance in October 2021, the Commission became a market leader in terms of transparency, as the first green bond issuer to provide detailed information on the underlying expenditures in almost real time via an interactive online tool.

New net borrowing under the NGEU programme will be completed by end 2026, in line with the relevant legislation[1]. However, NGEU Green Bond issuances can continue to take place also after 2026 as part of the roll-over operations under the management of the NGEU-related borrowing. The scale, pace and timing of those issuances will depend on the reporting and review of eligible green expenditure by EU Member States.

The Commission welcomes the ECA's findings that highlight the alignment of the Commission's NGEU Green Bond framework with the internationally recognised sustainable finance standards (ICMA Green Bond Principles)[2]. It also welcomes the ECA's findings on the Commission's prudent approach to calibrating NGEU Green Bond issuances relative to the EU Member States reported green expenditure[3]. The Commission takes good note of the ECA's findings on the risks arising from relying on EU Member States' national controls for project-level reporting[4] and will give utmost consideration to the ECA's observations to ensure that it continues its prudent approach to NGEU Green Bond issuances.

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1 In line with Article 5 of the 2020/2053 Own Resource Decision

2 See ECA Observations 15-19

3 See ECA Observation 10

4 See ECA Observation 9

II. REPLIES TO THE RECOMMENDATIONS

Recommendation 1 – Increase assurance that NGEU green bonds finance only green expenditure

The Commission, in cooperation with Member States, should strengthen its existing due diligence on RRF measures, which is used to determine the eligibility of green expenditure for green bond financing. This approach should:

(a) take into account the audit findings and other information available to the Commission and identify those RRF measures where there is a significant risk that green bond proceeds could be used to finance non-eligible expenditure; and

(b) fully or partially remove such measures from the pool of measures that can be financed by NGEU green bonds.

(Target implementation date: November 2027)

The Commission **accepts** recommendation 1(a).

The Commission welcomes the ECA's recognition of the due diligence checks put in place to establish the eligibility of RRF measures for green bond funding. This process is established based on criteria that assess measures' eligibility for NGEU Green Bond financing by taking into account their risk factors. Going forward, the Commission will strengthen this process, analysing available information at the level of measures (including the information presented by the ECA in this audit) to identify instances where expenditure should not be eligible for NGEU Green Bond financing, either in full or partially.

The Commission **accepts** recommendation 1(b).

The Commission has already removed (fully or partially) a number of measures that pose a significant risk of not meeting the NGEU Green Bond framework standards.

Concretely, since August 2023, the Commission has been taking into account only a part of those measures that it considers at risk of partially financing fossil fuels. Furthermore, the Commission already in 2024 identified the risk that it might not be always possible to substantiate expenditure reported by EU Member States in connection to financial instruments based solely on the information provided in the Recovery and Resilience Plans[5]. Since March 2026 the Commission has decided that for the purposes of NGEU Green Bond issuances, it will temporarily not take into account reported green expenditure that is related to those measures. The Commission has also obtained from relevant EU Member States commitment to provide targeted reporting on outputs and incurred expenditure related to those measures. Only when this information is received will the Commission issue NGEU Green Bonds against this expenditure.

Going forward, taking into account the ECA audit findings and other relevant information, the Commission will continue to fully or partially remove from the NGEU Green Bond pool measures that are deemed to pose a significant risk of supporting activities that are not eligible for NGEU

[5] 2024 and 2025 Allocation and Impact reports

Green Bond financing. This will strengthen even further the reliability of allocation of proceeds in line with the NGEU Green Bond framework.

Recommendation 2 – Increase the buffer to reduce the risk of issuing excess NGEU green bonds

To strengthen its management of the risks of issuing excess NGEU green bonds in the future, the Commission should increase the difference ("buffer") set out in its internal guidance between the reported cumulative green expenditure and the cumulative value of bonds it may issue.

(Target implementation date: Q4 2026)

The Commission **accepts** recommendation 2.

The Commission agrees with the importance of avoiding the issuance of excess NGEU Green Bonds over the programme's lifetime and the need for a continued prudent practice of keeping buffers to address this risk.

The Commission will review its internal guidance by the end of 2026 to ensure that the current prudent mechanisms underpinning the NGEU Green Bond issuances, including the size of its internal buffer, remain robust.

Recommendation 3 – Report on both the costs and benefits of issuing NGEU green bonds

To improve transparency and provide comprehensive information for the discharge authority on the lessons learned, the Commission should report on the costs and benefits of issuing NGEU green bonds instead of conventional EU bonds.

(Target implementation date: Q2 2028)

The Commission **partially accepts** recommendation 3.

The Commission notes the ECA's recommendation for additional reporting on the costs and benefits of NGEU Green Bond issuances relative to conventional bonds. The Commission accepts to report on these costs and benefits towards the final stages of the programme. Since such costs and benefits are often non-quantifiable, this reporting will be done on a best effort basis, with a focus on their quantifiable aspects. The partial acceptance hence reflects the limitations that the Commission will have in reporting on the non-quantifiable costs and benefits, which is the case also for other green bond issuers.

III. REPLIES TO OBSERVATIONS

1. EU Taxonomy alignment

The ECA has observed that the NGEU Green Bond framework is less ambitious than a standard based on the EU Taxonomy[6].

[6] See ECA observations 20-23

The Commission set up the NGEU Green Bond framework based on the most suitable market recognised standard that was in place 2021. As the technical specifications of the EU Taxonomy Regulation had not yet been adopted at the time of the RRF Regulation the Commission opted to proceed with its issuances on basis of the ICMA's Green Bond principles. Nevertheless, recognising the importance of developments under the EU Taxonomy the Commission incorporated to the greatest extent possible relevant aspects of the EU Taxonomy and of the Do-No-Significant-Harm assessment into the RRF. The Commission also committed to report voluntarily on the extent to which expenditure that is eligible for financing from NGEU Green Bonds is aligned to the EU Taxonomy. The publication of such an assessment in 2022 made the EU one of the first issuers to report on EU Taxonomy alignment.

Given that reporting under the RRF is based on the RRF Regulation that has been adopted by the Parliament and the Council and cannot be changed unilaterally by the Commission, the Commission has been transparent that despite the adoption of the voluntary EU Green Bond Standard in 2023, all NGEU Green Bond issuances would continue to take place for the entirety of the programme within the originally adopted ICMA aligned NGEU Green Bond framework.

2. Project-level oversight and risk mitigation

The ECA has determined that the Commission's NGEU Green Bond framework mirrors the ICMA Green Bond principles by restricting the use of proceeds exclusively to measures benefiting the environment and the climate. The Commission has been taking a prudent approach to addressing the risk of issuing excess green bonds by maintaining a buffer between the level of NGEU Green Bond issuances and EU Member States' reported green expenditure.

The Commission's checks on reporting by EU Member States reflect the requirements of the RRF Regulation, which allows for checks at project level in the context of assessing payment request, including via sampling, to ensure that requirements and eligibility rules are respected. The nature of those controls reflects the institutional set-up and the division of responsibilities between the Commission and EU Member States as far as project level implementation is concerned. The Commission supplements the standard RRF controls with additional EU-level due diligence of all eligible measures. This due diligence is based on information available under EU Member States' Recovery and Resilience plans and associated reporting on milestones and targets agreed under the RRF's performance-based principles.

The Commission has put in place a robust risk management framework to prevent a higher level of NGEU Green Bond issuances than can eventually be allocated to the reported green expenditure by the end of the programme. Prudent due diligence of eligible RRF measures and calibration of the NGEU Green Bond issuances to EU Member States' reported green expenditure are key components of these controls. For example, since the 2024 annual Allocation and Impact Report the Commission has been following the inclusion of financial instruments in EU Member States' Recovery and Resilience Plans and since early 2026 it has decided to issue NGEU Green Bonds only for the fulfilment of relevant milestones and targets for which it has received from EU Member States reporting that is related to on-the-ground implementation of eligible projects. This approach reflects the Commission's focus in ensuring the credible implementation of the NGEU Green Bond programme.

3. Reporting on NGEU Green Bonds' costs and benefits

The ECA has observed that the Commission is not reporting on the costs and benefits of NGEU Green Bonds versus conventional bonds[7].

[7] See ECA observation 11.

The Commission provides information on the execution of NGEU Green Bond issuances through its regular reporting to the European Parliament and the Council, including via twice-yearly reports on the implementation of borrowing, debt management and related lending operations pursuant to Article 13 of Commission Implementing Decision C(2023)8010. The Commission also reports on the pricing of funding transactions (both in terms of conventional and green bonds) though a dedicated page on the "EU as a borrower" webpage and dedicated press releases.

Reporting on the implementation of the NGEU Green Bond programme is also based on the pillars of the NGEU Green Bond framework, namely: (i) use of proceeds; (ii) investment evaluation and selection; (iii) management of proceeds; and (iv) transparent impact and allocation reporting. These reporting items are fully aligned with the ICMA requirements, while also being extended over the years on the basis of investor needs and feedback. The annual Allocation and Impact Report is also accompanied by a dedicated NGEU Green Bond Dashboard and by regular updates of the Commission's public investor presentation.